

**DEPARTMENT OF BUSINESS OVERSIGHT***Ensuring a Fair and Secure Financial Services Marketplace for all Californians*

**Jan Lynn Owen**  
**Commissioner of Business Oversight**

January 10, 2017

Dear Senator/Assemblymember:

The Department of Business Oversight (DBO) respectfully submits the attached 2017 Report on the Broker-Dealer Investment Adviser Program (Program) as required by the Budget Act of 2014. Beginning in 2016, pursuant to that Budget Act (SB 852, Item 1701-001-0067), the DBO must provide the Legislature and Department of Finance an annual report on the Program by January 10 of each year.

The reporting requirement was adopted following enactment of SB 538 (Chapter 335, Statutes of 2013), which authorized the DBO to collect annual registration renewal fees from broker-dealers and investment advisors to support regular examination of its licensees. Regular and periodic examinations help ensure broker-dealers, investment advisors, and their employees who perform important functions on behalf of Californians adhere to the law and their duties to investors.

The report includes information on the number of positions authorized and filled, the number and share of licensees examined, results and outcomes of examinations, and estimated staffing levels required to achieve legally-required examination cycles for licensees under the Program.

I hope you find the report informative and useful. Please do not hesitate to contact me at (916) 324-9011 or [JanLynn.Owen@dbo.ca.gov](mailto:JanLynn.Owen@dbo.ca.gov), or Indira McDonald, Legislative Deputy, at (916) 324-9011 or [Indira.McDonald@dbo.ca.gov](mailto:Indira.McDonald@dbo.ca.gov), if you have questions or concerns. The report also can be found on the DBO website at [http://www.dbo.ca.gov/Licensees/Corporate\\_Securities\\_Law/Publications.asp](http://www.dbo.ca.gov/Licensees/Corporate_Securities_Law/Publications.asp).

Sincerely,

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Commissioner of Business Oversight

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**DEPARTMENT OF BUSINESS OVERSIGHT**

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# **Report to the California State Legislature**

## **Broker-Dealer/Investment Adviser Program**

**January 2017**

**Jan Lynn Owen**  
**Commissioner of Business Oversight**



The Department of Business Oversight (DBO) submits this report pursuant to the Budget Act of 2014 (Senate Bill 852, Item 1701-001-0067). The DBO's Broker-Dealer Investment Adviser (BDIA) Program, under the Corporate Securities Law of 1968, licenses and regulates investment advisers, investment adviser representatives, broker-dealers and broker-dealer agents. Regulatory oversight helps protect the investing public from unethical and fraudulent activities and ensure California's financial services market is secure, fair and transparent. The BDIA Program carries out its oversight duties by performing detailed licensing reviews and regulatory examinations of licensees. The following table shows the historical number of BDIA licensees.

#### Workload History

Workload Measure	2011-12	2012-13	2013-14	2014-15	2015-16
Investment Adviser Firms*	3,255	3,677	3,712	3,711	3,737
Investment Adviser Representatives	49,841	52,154	50,980	51,627	52,580
Broker-Dealer Firms*	3,210	3,098	3,019	2,980	2,906
Broker-Dealer Agents	284,849	278,496	278,532	281,349	286,148
Broker-Dealer Branch Offices*	17,336	17,902	18,046	18,033	17,791

\* Subject to examination

#### 1. Number of positions authorized and filled

The BDIA program has 73 authorized positions, and 66 are currently filled.

#### 2. Number of licensees examined and share of licenses examined

The following table shows the number of examinations completed and the percentage share of the total licensees examined.

Licensee Type	Numbers of Licensees		Exams Completed by Fiscal Year		Percent Share of Licensees Examined	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Investment Adviser Firms	3,711	3,737	54	232	1.46%	6.21%
Broker-Dealer Firms	2,980	2,906	8	23	0.27%	0.79%
Broker-Dealer Branch Offices	18,033	17,791	10	14	0.06%	0.08%
Totals	24,724	24,434	72	269	.29%	1.10%

#### 3. Results and outcome of examinations

The BDIA Program conducted 269 examinations in fiscal year 2015-16. Ten cases were referred to the DBO's Enforcement Division to seek license revocation for various violations found during the examinations. The remaining 259 examinations identified various violations for which the licensees took corrective action to bring themselves into compliance.

#### 4. Required staffing levels

As of July 1, 2016, the BDIA Program has 73 authorized positions. Forty-seven of these positions are allocated to perform examinations, seven to licensing functions and 19 to program support. Based on current information, the BDIA Program estimates it needs at least 256 additional examiners to meet expected four-year examination cycle requirements.

##### Required Number of Examiners to Meet Four-Year Examination Requirements

	# of Firms	Exam Cycle (yrs)	Estimated exams per yr (total DBO workload)	Average # of staff hrs per exam	Total # of workload hrs (DBO-wide)	Annual hrs available per examiner*	Estimated total # of required examiners
Investment Adviser Firms	3,737	4	934	80	74,720	1,660	45
Broker-Dealer Firms	2,906	4	727	100	72,700	1,660	44
Broker-Dealer Branch Offices	17,791	4	4,448	80	355,840	1,660	214
Totals			6,109		503,260	1,660	303

\* Does not include 100 hours of required annual training.

##### Calculation of Required Number of Additional Examiners Required to Meet Four-Year Examination Requirements

Current Staffing	
Available Examination Staff	47
Available Annual Hours per Staff	1,660
Total Available Hours	78,020
Ongoing Workload Exams (In hours)	503,260
Less: Total Current Available Staff Hours	78,020
Unmet Staff Needs (In hours)	425,240
Total Positions Needed (Unmet Need/1,660 hours)	256